

OFICINA DEL COMISIONADO DE ASUNTOS MUNICIPALES
AREA DE ASESORAMIENTO, REGLAMENTACION E INTERVENCION FISCAL
AREA DE ARCHIVO DIGITAL

MUNICIPIO DE VEGA BAJA
AUDITORIA 2000-01
30 DE JUNIO DE 2001

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DE ASUNTOS MUNICIP
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**MUNICIPALITY OF VEGA BAJA
VEGA BAJA, PUERTO RICO**

**GENERAL PURPOSE FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S
REPORT THEREON**

JUNE 30, 2001

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

SINGLE AUDIT REPORT
JUNE 30, 2001

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MUNICIPALITY OF VEGA BAJA, PUERTO RICO

SINGLE AUDIT REPORT
JUNE 30, 2001

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NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

INDEPENDENT AUDITOR'S REPORT ON GENERAL-PURPOSE FINANCIAL STATEMENTS

Mayor of the Municipality of Vega Baja
Vega Baja, Puerto Rico

We have audited the general purpose financial statements of the Municipality of Vega Baja, Puerto Rico, as of and for the year ended June 30, 2001 as listed in the accompanying Table of Contents. These general purpose financial statements are the responsibility of the Municipality's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

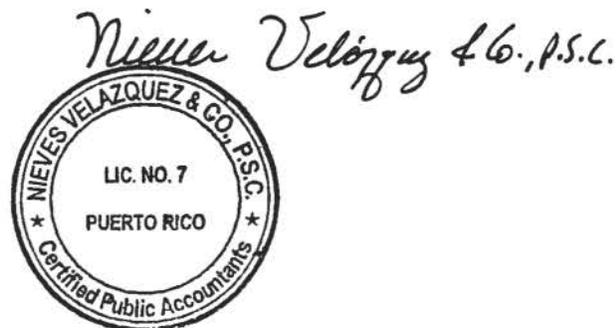
Except as explained in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 7, the Municipality is completing the accounting records of its general fixed assets and, accordingly, we were unable to satisfy ourselves as to the fixed assets balance of such account group amounting to \$38,346,263 at June 30, 2001.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary as discussed in the preceding paragraph, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Municipality of Vega Baja, Puerto Rico, at June 30, 2001, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

December 17, 2001
San Juan, Puerto Rico

CPA Stamp #1690717 was
affixed to the record
copy of this report.



Municipality of Vega Baja, Puerto Rico
 Combined Balance Sheet - All fund Types and Account Groups
 For the fiscal year ended June 30, 2001

(With comparative totals for June 30, 2000)

	Governmental Fund types			Account Groups		Totals (Memorandum Only)		
	General	Special Revenue	Debt Service	Capital Project	General Fixed Assets	General Long Term Debt	2001	2000
ASSETS AND OTHER DEBITS								
Cash (including \$ 7.8 million in certificate of deposits)	\$5,293,533	3,894,571	-	7,316,653	-	-	16,504,757	19,256,198
Cash with fiscal agent	-	-	4,811,217	-	-	-	4,811,217	5,123,721
Accounts receivable	114,593	8,308,089	33,051	25,004	-	-	8,480,737	10,903,362
Accounts receivable - governmental units	3,563,803	-	-	-	-	-	3,563,803	-
Interest receivables	-	-	15,181	-	-	-	15,181	52,445
Due from other funds	576,852	-	-	663,638	-	-	1,240,490	795,962
Property, plant & equipment	-	-	-	-	38,346,263	-	38,346,263	37,388,429
Amount available in debt service fund	-	-	-	-	-	3,000,169	3,000,169	3,521,679
Other debits:								
Amounts to be provided for:								
Payment of general long term debt	-	-	-	-	-	24,455,831	24,455,831	25,162,321
Payment of accrued compensated absences	-	-	-	-	-	1,888,648	1,888,648	1,996,932
Payment of property tax	-	-	-	-	-	482,139	482,139	542,000
Payment of landfill obligations	-	-	-	-	-	7,000,000	7,000,000	7,500,000
Total assets and debits	9,548,781	12,202,660	4,859,449	8,005,295	38,346,263	36,826,787	109,789,235	112,243,049
LIABILITIES AND FUND EQUITY								
Liabilities:								
Accounts payable	767,424	2,128,225	-	53,290	-	-	2,948,939	2,404,357
Accrued liabilities	419,081	-	-	-	-	-	419,081	415,353
Due to other governmental units	245,923	-	-	-	-	-	245,923	1,371,103
Due to other funds	663,638	506,911	44,937	25,004	-	-	1,240,490	795,962
Matured bonds and notes	-	-	935,000	-	-	-	935,000	895,000
Accrued interest payable	-	-	879,343	-	-	-	879,343	884,382
General long term debt	-	-	-	-	-	27,456,000	27,456,000	28,684,000
Deposits and bonds	97,143	-	-	-	-	-	97,143	64,386
Deferred revenue	6,702,729	5,912,333	-	-	-	-	12,615,062	12,512,546
Property tax advances	-	-	-	-	-	482,139	482,139	542,000
Accrued compensated absences	-	-	-	-	-	1,888,648	1,888,648	1,996,932
Accrual of landfill obligations	-	-	-	-	-	7,000,000	7,000,000	7,500,000
Total liabilities	8,895,938	8,547,469	1,859,280	78,294	-	36,826,787	56,207,768	58,066,021

(CONTINUES)

Municipality of Vega Baja, Puerto Rico
 Combined Balance Sheet - All fund Types and Account Groups
 For the fiscal year ended June 30, 2001

(With comparative totals for June 30, 2000)

	Governmental Fund types				Account Groups		Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Project	General Fixed Assets	General Long Term Debt	2001	2000
(CONTINUED)								
Fund Equity:								
Investment in general fixed assets	-	-	-	-	38,346,263	-	38,346,263	37,388,429
Fund balances:								
Designated for debt service	-	-	3,000,169	-	-	-	3,000,169	3,521,679
Reserved for capital projects	-	-	-	7,927,001	-	-	7,927,001	8,026,725
Reserved for other purposes	-	3,655,191	-	-	-	-	3,655,191	4,758,170
Undesignated	652,843	-	-	-	-	-	652,843	482,025
Total fund equity	652,843	3,655,191	3,000,169	7,927,001	38,346,263	-	53,581,467	54,177,028
Total liabilities and fund equity	\$ 9,548,781	12,202,660	4,859,449	8,005,295	38,346,263	36,826,787	109,789,235	112,243,049

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Vega Baja, Puerto Rico
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the fiscal year ended June 30, 2001

(With comparative totals for June 30, 2000)

	Governmental Fund types				Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Project	2001	2000
REVENUES						
Property taxes	\$6,630,235	-	1,598,240	-	8,228,475	8,360,674
Volume of business tax	6,044,516	-	-	-	6,044,516	5,718,113
Licenses and permits	1,572,272	-	-	-	1,572,272	510,675
Intergovernmental services	508,032	-	-	-	508,032	333,223
Intergovernmental grants	1,463,048	1,332,832	-	638,129	3,434,009	3,901,609
Federal assistance	-	10,355,569	-	-	10,355,569	10,566,651
Charges for rents	252,637	-	-	-	252,637	224,927
Interest	803,821	108,506	-	-	912,327	1,225,409
Landfill	977,944	-	-	-	977,944	1,615,975
Miscellaneous	1,668,654	1,366,298	-	663,638	3,698,590	1,947,785
Total revenues	19,921,159	13,163,205	1,598,240	1,301,767	35,984,371	34,405,041
EXPENDITURES						
General government	6,482,673	219,186	-	-	6,701,859	6,683,074
Public works	6,270,072	-	-	-	6,270,072	6,489,634
Health and welfare	2,140,952	711,542	-	-	2,852,494	2,274,801
Public safety	1,403,730	135,963	-	-	1,539,693	1,649,735
Education and recreation	1,819,893	6,965,903	-	-	8,785,796	7,778,013
Sanitation	1,348,271	-	-	-	1,348,271	1,207,866
Housing	-	1,821,031	-	-	1,821,031	1,309,520
Debt service:						
Principal	-	-	2,053,000	-	2,053,000	1,957,000
Interest	-	-	1,877,963	-	1,877,963	1,881,531
Capital expenditures	-	2,886,096	-	2,226,491	5,112,587	6,315,541
Total expenditures	19,465,591	12,739,721	3,930,963	2,226,491	38,362,766	37,546,715

(CONTINUES)

Municipality of Vega Baja, Puerto Rico
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the fiscal year ended June 30, 2001

(With comparative totals for June 30, 2000)

	Governmental Fund types				Totals	
	General	Special Revenue	Debt Service	Capital Project	(Memorandum Only)	
					2001	2000
(CONTINUED)						
Excess of revenues (expenditures) over expenditures (revenues)	455,568	423,484	-2,332,723	-924,724	-2,378,395	-3,141,674
Other financing sources (uses):						
Proceeds from debt issuance	-	-	-	825,000	825,000	2,370,000
Transfers in	-	913,624	1,811,213	-	2,724,837	3,097,911
Transfers out	-284,750	-2,440,087	-	-	-2,724,837	-3,097,911
Total other financing (uses) sources	-284,750	-1,526,463	1,811,213	825,000.00	825,000.00	2,370,000
Excess of revenues (expenditures) and other sources (uses) over expenditures (revenues)	170,818	-1,102,979	-521,510	-99,724	-1,553,395	-771,674
Fund balances at beginning of year	482,025	4,758,170	3,521,679	8,026,725	16,788,599	17,560,273
Fund balances at end of year	\$652,843	3,655,191	3,000,169	7,927,001	15,235,204	16,788,599

The accompanying notes are an integral part of these general purpose financial statements.

Municipality of Vega Baja, Puerto Rico

Statement of Revenues and Expenditures
Budget and Actual - General Fund and Debt Service Fund

Budget Basis
Year Ended June 30, 2001

	GENERAL FUND			DEBT SERVICE FUND		
	Revised Budget	Adjusted Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Property tax	\$ 6,630,260	6,630,235	(25)	1,822,485	1,598,240	(224,245)
Volume of business tax	6,235,025	6,044,516	(190,509)	-	-	-
Licenses and permits	640,500	1,572,272	931,772	-	-	-
Intergovernmental services	365,025	508,032	143,007	-	-	-
Intergovernmental grants	1,256,403	1,463,048	206,645	-	-	-
Property rent	354,000	252,637	(101,363)	-	-	-
Interest	1,000,000	803,821	(196,179)	-	-	-
Landfill revenues	1,500,000	977,944	(522,056)	-	-	-
Miscellaneous	1,823,683	1,668,654	(155,029)	-	-	-
Transfer in	-	-	-	-	1,811,213	1,811,213
Total Revenues	19,804,896	19,921,159	116,263	1,822,485	3,409,453	1,586,968
Expenditures						
General government	6,804,478	6,767,423	37,055	-	-	-
Public works	6,271,382	6,270,072	1,310	-	-	-
Health & welfare	2,155,746	2,140,952	14,794	-	-	-
Public safety	1,403,964	1,403,730	234	-	-	-
Education & recreation	1,820,492	1,819,893	599	-	-	-
Sanitation	1,348,834	1,348,271	563	-	-	-
Bonds & notes	-	-	-	778,865	2,053,000	(1,274,135)
Interest	-	-	-	1,043,620	1,877,963	(834,343)
Total Expenditures	19,804,896	19,750,341	54,555	1,822,485	3,930,963	(2,108,478)
Excess of (expenditures) revenues over (revenues) expenditures	\$ -	170,818	170,818	-	(521,510)	(521,510)

The accompanying notes are an integral part of these general purpose financial statements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

1. ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

The Municipality of Vega Baja (Municipality) was established in 1776. The governmental system of the Municipality is composed of the executive and legislative bodies. The Mayor is the Chief Executive Officer and is elected every four years in the general elections of Puerto Rico. The legislative body consists of fourteen (14) assemblymen also elected in the general elections of Puerto Rico for the same term.

The Municipality provides services such as: Health, Public works, Human Services, Sanitation, Welfare, Education, Public Safety, Housing and Urban Development, Culture and Recreation, and other general and administrative services.

The financial statements of the Municipality have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its existing Governmental Accounting and Financial Reporting Standards, which along with subsequent GASB Pronouncement (Statements and Interpretations), constitute GAAP for governmental units. A summary of the Municipality's significant accounting policies consistently applied in the preparation of the accompanying general purpose financial statements follows:

Summary of Significant Accounting Policies

The accounting policies of the Municipality conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies:

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS June 30, 2001

1. ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

A. Financial Reporting Entity

In evaluating how to define the Municipality for financial reporting purposes, management has considered all potential component units. The decision to exclude a potential component unit in the reporting entity was made by applying the provisions of Statement No. 14 of the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is if elected officials of a primary government appoints a voting majority of the entity's governing body and if either one of the following conditions exist; the primary government can impose its will on the other entity or the potential exists for the other entity to (1) provide specific financial benefits to or (2) impose specific financial burdens on the primary government. A second criterion used in evaluating potential component units is if the nature and significance of the relationship between the entity and a primary government are such that to exclude the entity from the financial reporting entity would render the financial statements misleading or incomplete. The Municipality has no other reporting entity than those included in the accompanying general purpose financial statements follow:

B. Basis of Presentation-Fund Accounting

The accounts of the Municipality are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing account that comprises its assets, liabilities, fund equity, revenues, and expenditures/expenses. The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the Municipality:

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

1. **ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

B. **Basis of Presentation-Fund Accounting (Continuation)**

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions of the Municipality are financed. The acquisition, use, and balances of the Municipality's expendable financial resources and the related liabilities are accounted for through governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The following are the Municipality's governmental fund types:

General Fund-The general fund is the general operating fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds-Special revenue fund are used to account for the proceeds of specific revenue to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Debt Service Funds-Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Capital Projects Funds-The capital projects funds are used to account for the financial resources for the acquisition or construction of major improvements or equipment acquisition, excepts projects to be financed through the special revenue funds.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

1. **ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

B. **Basis of Presentation-Fund Accounting** (Continuation)

ACCOUNT GROUPS

Account groups are not funds and are used to establish accounting control and accountability for the Municipality's general fixed assets and general long-term debt. The following are the Municipality's account groups:

General Fixed Assets Account Group-This group of accounts is established to account for all fixed assets of the Municipality. As indicated in Note 7, at the date of the preparation of these financial statements, the Municipality is completing the accounting records of its fixed assets.

General Long-Term Debt Account Group-This group of accounts is established to account for all long-term debt of the Municipality.

C. **Basis of Accounting**

The governmental funds followed the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter, to be used to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues.

Expenditures, other than interest on long-term debt and accrued compensated absences are recorded when due and when the liability is incurred, if measurable. Accrued vacation and sick leave are recorded in the general long-term debt account group.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, funds must be expended on specific

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

1. **ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

C. **Basis of Accounting** (Continuation)

purpose or project before any amount will be paid to the Municipality. Therefore, revenues are recognized based upon the expenditures recorded. In the other, funds are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Licenses and permits, charges for services, fines and forfeits and miscellaneous revenues (except investment earnings) are recorded as revenues when received. Investment earnings (interest) are recorded as earned since they are measurable and available.

D. **Encumbrances**

Encumbrances accounting is used in the government funds. Under the encumbrance system all purchase orders, contracts and other commitments for expenditures of funds are recorded to reserve that portion of the applicable appropriation for the future obligations. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

E. **Budgetary Data**

The Municipality follows these procedures, which are in accordance with the Municipal law, in establishing the budgetary data reflected in the general purpose financial statements:

1. Prior to May 31, the Mayor submits to the Municipal Assembly a proposed budget for the fiscal year commencing the following July 1st. The proposed budget includes estimated expenditures and the means of financing them.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

1. **ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

E. **Budgetary Data** (Continuation)

2. The budget document is available for public inspection prior to its approval by the Municipal Assembly.
3. Prior to July 1, the annual budget is legally enacted through passage of the annual appropriation ordinance.
4. Subsequent to the enactment of the annual appropriation ordinance, the Municipal Assembly has the authority to make necessary adjustments to the budget. Adjustments made during the year are reflected in the budget information included in the general purpose financial statements.

The budget is prepared following the modified accrual basis of accounting, except for encumbrances as described below.

The actual results of operations, presented in the Statement of Revenues and Expenditures-Budget and Actual-General Fund, is in conformity with the budgetary accounting of the Municipality for a better comparison with the budget information.

The most significant difference between the budgetary and the modified accrual basis is that encumbrances are recorded as expenditures under the budgetary basis and as a reserve of fund balances under the modified accrual basis.

The necessary adjustments to convert the results of operations of the general fund from the modified accrual accounting basis to the budgetary basis are none.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

1. **ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

E. **Budgetary Data (Continuation)**

During the fiscal year, the Municipality readjusted its original budget of the General Fund Balance by \$448,340 from prior year fund balance.

The budget prepared for each of the special revenue funds is based on a program period, which is not necessarily the same fiscal year of the Municipality. Accordingly, it is not practical to present an annual comparison of budget and actual for the special revenue funds.

F. **Cash and Short-Term Investments**

The Director of Finance of the Municipality is responsible for investing the available resources in certificates of deposit and other short term investments. Investments are made from the available combined funds of the Municipality and, accordingly, it is not practical to individually disclose in the general purpose financial statements the certificates of deposit and short term investments. Interests earned on certificates of deposit and other short term investments are generally recognized as a revenue in the General Fund.

G. **Inventories**

The general fund purchases office and printing supplies, gasoline, oil and other items. The cost of purchases is recorded as an expenditures and the inventory is not recorded in the general purpose financial statements since the amount is insignificant.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

1. ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continuation)

H. Interfund Transactions

The general fund provides services at cost to the special revenue funds. The amounts charged to these funds for these services are treated as a reduction of expenditures in the general fund and as current expenditures in the special revenue funds.

I. General Fixed Assets

The general fixed assets acquired are recorded as expenditures in the government fund and are capitalized at cost in the general fixed assets account group. Donated general fixed assets are recorded at their estimated fair market value at the time they were received by the Municipality. As indicated in Note 7, the Municipality is completing the accounting records for its fixed assets.

No depreciation will be provided on general fixed assets and the interest on the financing during the construction period is not capitalized.

J. Vacations and Sick Leave

Municipal employees are granted 30 days of vacations and 18 days of sick leave annually. Vacations may be accumulated up to a maximum of 60 days and sick leave up to a maximum of 90 days. In the event of employee resignation, the employee is paid for accumulated vacation days up to the maximum allowed. Separation from employment prior to use of all or part of the sick leave terminates all rights for compensation, except for employees with ten or more years of service who are entitled to sick leave pay up to the maximum allowed.

Employees' maximum allowed accumulated vacations and sick leave are accounted for in the general long-term debt account group.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

1. **ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)**

K. Insurance

The Municipality has insurance coverage for its public facilities, primarily to provide protection from catastrophic losses. Also, principal officials of the Municipality are covered under various surety bonds. The Secretary of the Department of the Treasury of the Commonwealth of Puerto Rico is the agent commissioned to place all of the Municipality's insurance coverage.

L. Reservations of Fund Balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriate for expenditure. The Municipality has the following reservations of fund balance:

- * **Debt Service** - Represent net assets available to finance future debt service payments.
- * **Capital Projects** - Represent net assets available to finance future debt service payment.
- * **For equipment and other purposes** - Represents net assets legally segregated for acquisition of equipment and other specific future use.
- * **For loans and grants** - Represent net assets available to finance and subsidiary other projects.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

1. ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continuation)

M. Claims and Judgments

The estimated amount of the liability for claims and judgments, which is due on demand, such as from adjudicated or settled claims, is recorded in the general fund. The general long-term debt account group includes an amount estimated as a contingent liability or liabilities with a fixed or expected due date, which will require future available financial resources for its payments.

N. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

O. Totals Column (Memorandum Only) in the General Purpose Financial Statements

The total data under this column is presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Such data is not comparable to a consolidation, since interfund eliminations have not been made.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

2. CASH

The Municipality maintained all its deposits in institutions approved by the Department of the Treasury of the Commonwealth of Puerto Rico (Department of Treasury), and such deposits were kept in separate bank accounts in the name of the Municipality. The Municipality's cash at June 30, 2001 were entirely covered by the Federal Depository Insurance or by collateral provided by the banks and held by the Department of the Treasury, pursuant to applicable laws and regulations. Cash with fiscal agent is maintained in interest bearing accounts in the Government Development Bank for Puerto Rico and is not collateralized.

Puerto Rico laws authorize government entities to invest in direct obligations or obligations and certificates of deposit in financial institutions authorized to do business under the federal and Commonwealth laws. During the year, the Municipality invested its funds in interest bearing bank accounts and short-term certificates of deposit.

3. DUE FROM (TO) GOVERNMENTAL UNITS

The General Fund due from (to) balance, with government units as of June 30, 2001 is as follows:

	<u>DUE FROM</u>	<u>DUE TO</u>
Municipal Revenue Collection Center (CRIM-See Note 4)	\$ 3,563,803	-
Puerto Rico Power Authority	-	147,510
Retirement System Administration	-	53,601
Puerto Rico Aqueduct and Sewer Authority	-	<u>44,812</u>
	<u>\$3,563,803</u>	<u>245,923</u>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

4. PROPERTY TAXES

The "Centro de Recaudaciones de Ingresos Municipales" (CRIM) is responsible for the assessment of all real and personal property located within the Municipality and for the levy, administration and collection of the corresponding taxes.

The property tax is levied each year on the assessed value of the property at the beginning of the calendar year. Assessed values of real property are established at the estimated current value existing in the year 1957 and of personal property and of personal property at the current value at the date of the assessment.

The tax effective rate per annum is 8.43% for real property and 6.43% for personal property of which 3.58% and 1.58% respectively, belongs to the Commonwealth of Puerto Rico and 4.85% of both percents belong to the Municipality. From the portion belonging to the Municipality, 3.25% represents the Municipality's basic tax rate, which is appropriated for general purposes, and, therefore, accounted for through the general fund. Such amount is deposited in an equalization fund together with a percentage of the net revenues of the Puerto Rico Electronic Lottery and a subsidy from the Commonwealth of Puerto Rico. From such fund, a distribution is made to all municipalities. The remaining portion belonging to the Municipality of 1.6% represents the "advalorem" tax withheld by the CRIM and restricted for debt service, which is accounted for through the debt service fund. (See Note 1-B.)

Complete real property tax exoneration is granted by the Commonwealth of Puerto Rico on the first \$15,000 of the assessed valuation of owner occupied residential units. However, the Municipality receives the full amount levied, except for residential units assessed at less than \$3,500, on which a complete exception is granted. Veterans have additional exemption from taxes of \$5,000 of the assessed value of real property. The Department of the Treasury, instead of the property taxpayer, becomes the source of payment in these cases.

Complete exemption from personal property taxes up to an assessment of \$50,000 is granted to retailers with an annual volume of net sales under \$150,000.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS June 30, 2001

4. PROPERTY TAXES (Continuation)

The CRIM annually reports to the Municipality the estimated basic property tax and the tax to be used for the debt service, which will be collected in the fiscal year. The basic tax is advanced to the Municipality during such fiscal year. It is the practice to amortize these advances through the subsequent collection by the CRIM of the basic tax from the taxpayers.

The basic tax advanced by the CRIM is recorded in the general fund as other financing sources and as a receivable for the excess collections over advances received, or, as a payable, for the excess of advances over collections. The property tax received from the CRIM, which is related to the exoneration granted by the Commonwealth of Puerto Rico, is reflected as revenue in the general fund.

The following is a summary of the property tax advances, which resulted as an account receivable for the year ended June 30, 2001 and outstanding debt from year 2000. The resulting receivable has been presented as a deferred revenue in the general fund and the debt has been presented in the long-term debt group of accounts since payment is not anticipate to be paid from current resources.

Account Receivable

Advances:

Amortization through collection of taxes by the CRIM, 07/01/2000 - 06/30/2001	\$ 7,914,062
Advances received 07/01/2000 - 06/30/2001	<u>6,630,235</u>
Account receivable from advances	1,283,827
Reimbursement of excess CAE from prior years	1,663,638
Reimbursement of LIMS project from prior years	<u>616,338</u>
Total receivable (Note 3)	<u>\$ 3,563,803</u>
<u>Long-term debt due to Crim</u>	<u>\$ 482,139</u>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS June 30, 2001

4. PROPERTY TAXES (Continuation)

The payment for this long-term debt, which resulted from prior two years advances, will be provided by an special loan approved by Municipal Assembly and to be issued by the Government Development Bank of Puerto Rico.

In August 2001, the CRIM authorized to reimburse the Municipality an amount of \$616,338 related with withholdings of the Land Information Management System (LIMS) Project for the years 1996-97 to 1999-00 and \$1,663,638 excess of CAE from prior years. The LIMS amount is presented as an account receivable and deferred revenue and the CAE amount as an account receivable and revenue in the accompanying financial statements.

5. VOLUME OF BUSINESS TAX

The volume of business tax is levied each year based on the prior year's gross revenues for all commercial and industrial organizations doing business in the Municipality and which are neither totally, nor partially exempt from this tax under the Industrial Incentives Acts of Puerto Rico. All taxpayers are required to file their annual declarations by April 23rd.

The tax rates are as follows:

- * 1.5% for financial institutions,
0.5% for all other non-financial institutions.

Taxes are payable in two equal semi-annual installments on or before July 1 and January 1 following the levy date. A 5% discount is granted only if the total amount is paid on or before the filing date of April 23rd.

Collections of taxes applicable to the next fiscal year, which amounted to \$4,802,564, are recorded as deferred revenues.

6. INTERGOVERNMENTAL REVENUES

Sources of intergovernmental revenues are primarily of governmental payments from the Commonwealth of Puerto Rico and "in lieu of tax" payments from certain quasi public corporations, such as Puerto Rico Electric Power Authority.

Grants and subsidies received from the Commonwealth of Puerto Rico include, among others, a general subsidy for capital improvements.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

6. INTERGOVERNMENTAL REVENUES (Continuation)

All of these intergovernmental revenues are accounted for through the general fund except for those directly related to capital improvements, which are accounted for through the capital project funds.

7. GENERAL FIXED ASSETS

The Municipality had maintained neither a complete, nor adequate accounting records of its fixed assets in prior years. However, during the prior fiscal year, the Municipality commenced to organize its property records to determine the amount invested in general fixed assets. This process includes the identification of all real and personal property through physical inventories and their subsequent valuation. Once this process is completed, the Municipality will adjust its investment in the general fixed assets account group. Actually, it is not practical to determine the correct amount invested in general fixed assets but it is expected to be completed for fiscal year 2001-2002.

Summary of changes in general fixed assets:

	<u>Amount</u>
Balance at 06/30/00	\$37,388,429
Net additions	<u>957,834</u>
Balance at 06/30/01	<u>\$38,346,263</u>

8. GENERAL AND SPECIAL OBLIGATIONS

The following is a summary of the long-term debt transactions for the year ended June 30, 2001:

Debt at June 30, 2000	\$28,684,000
Add: Issuance of new debt	825,000
Deduct:	
Expense	<u>(2,053,000)</u>
Debt at June 30, 2001	<u>\$27,456,000</u>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

8. GENERAL AND SPECIAL OBLIGATIONS (Continuation)

Long-term debt at June 30, 2001 is composed of the following:

General Obligations-Bonds:

Series of 1991, \$2,700,000 payable in annual installments of \$225,000 to \$315,000 until 2005; with interest ranging from 5.913% to 6.313%.	\$ 1,110,000
Series of 1994, \$1,635,000 payable in annual installments of \$55,000 to \$160,000 until 2014; with interest at 6.906% to 7.706%.	1,320,000
Series of 1995, \$6,665,000 payable in annual installments of \$275,000 to \$720,000 until 2012; with interest at 5.45% to 6.30%.	5,310,000
Series of 1997, \$4,340,000 payable in annual installments of \$75,000 to \$375,000 until 2022; with interest at 5.17% to 6.560%.	4,075,000
Series of 1999, \$3,115,000 payable in annual installments of \$70,000 to \$290,000 until 2019; with interest at 5.17% to 6.51%.	2,920,000
Series of 1987, \$3,175,000 payable in annual installments of \$170,000 until 2007; with interest at 9%.	1,020,000

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

8. GENERAL AND SPECIAL OBLIGATIONS (Continuation)

General Obligations-Bonds (Continuation):

Series of 1991, \$510,000 payable in annual installments of \$40,000 to \$60,000 until 2006; with interest ranging from 5.913% to 6.363%.	250,000
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Series of 2001, \$825,000 in annual installments of \$140,000 to \$195,000 until 2005; with interest at 6.13% to 8.00%.	685,000
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Notes:

\$472,000 payable in annual installments of \$64,000 to \$78,000 until 2005; with interest at 4.75%.	289,000
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\$430,000 payable in annual installments of \$59,000 to \$70,000 until 2005; with interest at 4.5%.	262,000
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\$465,000 payable in annual installments of \$35,000 to \$70,000 until 2008; with interest at 5.88% to 8%.	365,000
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\$105,000 payable in annual installments of \$20,000 to \$25,000 until 2003; with interest at 5.17% to 5.32%.	50,000
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NOTES, guaranteed by Real Property built, to be Constructed and HUD. These are Revenue Anticipation Notes to be paid from Community Development Block Grant Entitlement program fund to be approved in future years.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

8. GENERAL AND SPECIAL OBLIGATIONS (Continuation)

Notes (Continuation):

\$4,500,000 payable in annual installments of \$525,000 to \$1,000,000 until 2003; with interest from 6.84% to 8.27%.	2,075,000
\$6,455,000 payable in annual installments of \$300,000 to \$455,000 until 2015; with interest from 5.85% to 7.66%.	5,355,000
\$2,370,000 payable in annual installments of \$125,000 to \$185,000 until 2019; with interest at 7.5%.	<u>2,370,000</u> \$ <u>27,456,000</u>

The annual requirements to amortize the general long-term debt outstanding at June 30, 2001, including interest are as follows:

<u>Year ending</u> <u>June 30</u>	<u>General</u> <u>Obligations -</u> <u>Bonds and Notes</u>	<u>Interest</u>	<u>Total</u>
2002	\$2,268,000	1,936,403	4,204,403
2003	2,439,000	1,774,330	4,213,330
2004	2,956,000	1,562,216	4,518,216
2005	2,073,000	1,427,761	3,500,761
2006	1,485,000	1,288,133	2,773,133
2007 and thereafter	<u>16,235,000</u>	<u>7,987,102</u>	<u>24,222,102</u>
	<u>\$27,456,000</u>	<u>15,975,945</u>	<u>43,431,945</u>

The Municipality is subject to certain laws of the Commonwealth of Puerto Rico, which limit the amount of bond obligations that can be issued to 10% of the assessed valuation of the property located at the Municipality of Vega Baja.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 2001

9. DEBT SERVICE FUND

Revenues of the debt service fund consist of "ad valorem" property taxes, which are recognized as revenue when they are collected and reported by the CRIM. These property taxes are for the debt service requirements of the general obligations bonds and notes.

Principal and interest on these obligations are paid by the Government Development Bank and the Municipality from funds obtained from the following:

Property taxes	\$2,119,750
General fund	284,750
Special revenue fund	<u>1,526,463</u>
	<u>\$3,930,963</u>

Payments and accrual at June 30, 2001 were as follows:

Principal (Note 9)	\$2,053,000
Interest expense	<u>1,877,963</u>
	<u>\$3,930,963</u>

10. EMPLOYEE'S RETIREMENT SYSTEM PLAN

Substantially, all of the Municipality's permanent employees are members of the Employee's Retirement System of the Government of Puerto Rico and its Instrumentalities (System), which is a multiple-employer agent contributory defined benefit retirement system. Retirement and related benefits provided by the System are determined by Act 447, approved on May 15, 1951, as amended. The required contributions made by the Municipality were based on percentages established by the Administrator of the System. Such percentages were not based on actuarial studies as required by generally accepted accounting principles. An actuarial computation of the annual contribution applicable to the Municipality has not been prepared. Accordingly, the amounts by which the actual contributions differ from the required actuarial contributions are not known. The Municipality's total payroll for the fiscal year 2001 was approximately \$14,673,000, of which \$6,200,000 was subject to the System. The annual employer and employees contribution for the year ended June 30, 2001 amounted approximately \$575,000 and \$495,000, respectively. Members' contributions are 5.775% or 8.275% and the Municipality's contributions are 9.275% of gross salary.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

10. **EMPLOYEE'S RETIREMENT SYSTEM PLAN (Continuation)**

The annual retirement benefits for those regular full-time employees hired on, or before March 31, 1990, or those attaining permanent status before that date (Old Plan), and for those hired or attaining permanent status on or after April 1, 1990 (New Plan), are as follows:

OLD PLAN

<u>Eligibility</u>	<u>Pension Benefits</u>
Age 55 and 30 years of service	75% of average highest compensation during any 3 years of credited service
Under 55 and 30 years of service	65% of average highest compensation during any 3 years of credit service

Participants in the System who retire prior to 30 years of credited service are entitled to an annual retirement benefit equal to 1.5% of the highest compensation in any 3 years of credited service for each year of service up to 20 years, and 2% for each year in excess of 20 years.

NEW PLAN

Age 65 with 10 years of 1.5% of average compensation Service during the final 5 years of credited services multiplies by the numbers of years credited service

For both plans, the employees are vested when attaining ten years of credited services. Disability and death are available with certain limitations and all annuities in pay status will be increased every three years by 3% subject to the approval by the Legislature of Puerto Rico.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

10. EMPLOYEE'S RETIREMENT SYSTEM PLAN (Continuation)

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employee retirement systems and employers.

The most recent actuarial valuation for the System was performed as of June 30, 2000. This valuation, prepared by the actuaries of the System, does not provide a the detail of benefits, present value and net assets by participant entities. However, such actuarial report indicates that the present value of accrued benefits amounts to \$9.5 Billion. Net assets available for benefits \$2.1 Billion and excess accrued benefits over net assets available (Actuarial Deficiency) of \$7.4 Billion.

The projected unit credit actuarial cost method was used for the actuarial calculation. Significant assumptions were as follows:

	<u>Old Plan</u>	<u>New Plan</u>
Investment of return per year	8.5%	8.5%
Salary increases	5%	5%
Mortality rates table	GA'51	GA'51

The financial statements of the System provide additional plan information. Copy of such financial statements can be obtained from the Retirement System Administration, P.O. Box 42003, San Juan, Puerto Rico 00940.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

11. **DEFERRED REVENUES**

The amount presented as deferred revenues in the general fund is as follows:

Municipal License Tax (Note 5)	\$4,802,564
LIMS Project Reimbursement (Note 4)	616,338
Property Tax Liquidation (Note 4)	<u>1,283,827</u>
	<u>\$6,702,729</u>

12. **CLOSURE AND POST-CLOSURE CARE COST OF LANDFILL**

The Municipality operates a 40 acres solid waste landfill of which 23 acres are currently in use. The remaining 17 acres have not been used. The state and federal laws and regulations require the Municipality to estimate the total current cost of Municipal Solid Waste Landfill Closure and Post-Closure Care Costs. The Municipality recognized \$1,000,000 as the estimated obligation for landfill closure and \$6,000,000 for post-closure care costs for a total of \$7,000,000. Actual costs may be higher due to inflation changes in technology or changes in regulations. The amount was reported in the long-term debt account group because it will not be funded with available expendable financial resources at June 30, 2001. The Municipality expects to finance this obligation with the issuance of general obligation bonds. The estimated useful life of the 23 acres is 2 years.

13. **COMMITMENTS AND CONTINGENCIES**

Operating Leases

The Municipality has several short-term operating lease agreements covering some of the Municipality's premises and equipment. Most of the agreements are renewed annually. Total rental charges for the year ended June 30, 2001 were approximately \$530,721.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

13. **COMMITMENTS AND CONTINGENCIES (Continuation)**

Legal Claims

There are several pending lawsuit claims against the Municipality amounting to approximately \$2.5 Millions. They primarily relate to accidents, personal injuries and employees claims of illegal dismissal or breach of contracts. The Municipality believes it has meritorious defenses against these legal actions and is contesting them vigorously. In addition, the Municipality considers that those claims in excess of insurance coverage are filed in amounts far greater than those that can be reasonably expected to be agreed on with claimants or awarded by a court and, therefore, would not materially affect the financial statements.

Federal Programs

The Municipality participates in a number of federal financial assistance programs. Although the Municipality's grant programs have been audited in accordance with the provisions of the Single Audit Act of 1984, as amended, during the year ended June 30, 1996, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. These grants are also subject to audit or on behalf of the grantors to assure compliance with grant provisions. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Municipality expects such amounts, if any, to be immaterial.

The Capital Projects Fund reflects construction commitments for which the Municipality is obligated to an amount of approximately \$1,250,000. These are commitments for the improvements of recreational and cultural facilities and for street and general developments.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 2001

14. INTERFUND TRANSACTIONS

Due From/To Other Funds

Interfund receivables and payables generally reflect temporary loans, billings for services provided and recovery of expenditures. The amount reported in the general fund as due from other funds is composed principally of advances made to the special revenue fund to temporarily cover federal programs expenditures.

15. SUBSEQUENT EVENT

Subsequent to June 30, 2001, the Municipality obtained a \$1,410,000 loan from the Governmental Development Bank.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

**ADDITIONAL REPORTS REQUIRED UNDER THE
SINGLE AUDIT ACT AND OMB CIRCULAR A-133**



NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Mayor of the Municipality of Vega Baja
Vega Baja, Puerto Rico

We have audited the general purpose financial statements of the Municipality of Vega Baja, Puerto Rico, as of and for the year ended June 30, 2001, and have issued our report thereon dated December 17, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. In our report, our opinion was qualified as explained in the following paragraph.

As described in Note 7, the Municipality is completing the accounting records of its general fixed assets and, accordingly, we were unable to satisfy ourselves as to the fixed assets balances of such account group amounting to \$38,346,263 at June 30, 2001.

Compliance

As part of obtaining reasonable assurance about whether the Municipality of Vega Baja, Puerto Rico's general purpose financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that is required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality of Vega Baja, Puerto Rico's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

(Continuation)

Internal Control Over Financial Reporting (Continuation)

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weaknesses is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

January 18, 2002
San Juan, Puerto Rico

Nieves Velazquez & Co., P.S.C.

CPA Stamp No.1690725 was
affixed to the record copy
of this report





NIEVES VELAZQUEZ & CO., P.S.C.

Certified Public Accountants and Financial Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Major of the Municipality of Vega Baja
Vega Baja, Puerto Rico

Compliance

We have audited the compliance of the Municipality of Vega Baja, Puerto Rico, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2001. The Municipality of Vega Baja, Puerto Rico's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality of Vega Baja, Puerto Rico's management. Our responsibility is to express an opinion on the Municipality of Vega Baja, Puerto Rico's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality of Vega Baja, Puerto Rico's, compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Municipality of Vega Baja, Puerto Rico's compliance with those requirements.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133
(CONTINUATION)**

Compliance (Continuation)

In our opinion, the Municipality of Vega Baja, Puerto Rico, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed two instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Section III-Schedule of Findings and Questioned Costs as Items 01-III-1 and 01-III-2.

Internal Control Over Compliance

The management of Municipality of Vega Baja, Puerto Rico is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Municipality of Vega Baja, Puerto Rico's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Municipality's ability to administer a major federal program in accordance with the applicable requirements of laws regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-III-1 and 01-III-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133
(CONTINUATION)**

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the Municipality of Vega Baja as of and for the year ended June 30, 2001, and have issued our report thereon dated December 17, 2001. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements of Municipality of Vega Baja. Such information has been subjected to the auditing procedures applied in the audit of the general purposes financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole. In our report, our opinion was qualified as described in the following paragraph:

As described in Note 7, to the general purpose financial statements the Municipality has not maintained complete and adequate accounting records of its general fixed assets and, accordingly, we were unable to satisfy ourselves as to the fixed assets balances of such account group amounting to \$38,346,263 at June 30, 2001.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

January 18, 2002
San Juan, Puerto Rico

Nieves Velazquez & Co., P.S.C.

CPA Stamp No. 1690726 was
affixed to the record copy
of this report



MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FEDERAL FINANCIAL AWARDS
For The Year Ended June 30, 2001

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Identifying Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development</u>			
<u>Major Programs:</u>			
Section 8-Rental Voucher	14.871	RQ032-VO	\$ 940,590
<u>Non-Major Programs:</u>			
Direct Programs:			
Section 8-Rental Certificate Program	14.857	RQ032-CE	78,461
Section 8-Lower Income Housing Assistance Program, Moderate Rehabilitation	14.856	RQ46K032-001	283,435
Community Development Block Grant Program, Entitlement Grants and Loan Guarantee	14.218	N/A	1,358,716
Emergency Shelter Grant Program (Homeless)	14.231	N/A	71,416
Pass-Through Municipality of San Juan, Department of Housing: Housing Opportunity for Persons with AIDS Program	14.241	PR46H94-F028	77,698
<u>Federal Emergency Management Agency (F.E.M.A.)</u>			
<u>Non-Major Program:</u>			
Direct Program:			
Pass-Through Puerto Rico Governor Authorized Representative (GAR) Public Assistance Grants	83.544		<u>98,501</u>
Sub-total, carry forward			<u>2,908,817</u>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FEDERAL FINANCIAL AWARDS
For The Year Ended June 30, 2001

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Identifying Number	Federal Expenditures
Balance brought forward			2,908,817
U.S. Department of Health and Human Services			
<u>Major Programs:</u>			
Direct Programs:			
Head Start	93.600		5,258,023
Pass-Through Puerto Rico Child Care and Development Block Grant	93.575	N/A	408,947
<u>Non-Major Programs:</u>			
Pass-Through Puerto Rico Elderly Commission: Special Programs for Aging (Title III, Parts B and C, Nutrition Services)	93.044 93.045		38,671 39,232
U.S. Department of Agriculture			
<u>Non-Major Program:</u>			
Pass-Through Puerto Rico Department of Education: Child and Adults Care Food Program	10.558		463,722
Pass-Through Puerto Rico Acca Office II - Rural Development, Forestry Communities	10.672	63-00	13,486
U.S. Department of Justice			
<u>Non-Major Program:</u>			
Direct Program:			
Public Safety Partnership and Community: Community Oriented Policing Services (COPS)	16.710		<u>135,963</u>
Sub-total, carry forward			<u>9,266,861</u>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
 SCHEDULE OF FEDERAL FINANCIAL AWARDS
 For The Year Ended June 30, 2001

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Identifying Number	Federal Expenditures
Balance brought forward			9,266,861
<u>U.S. Department of Transportation</u>			
<u>Non-Major Program:</u>			
Direct Program:			
Federal Transit Capital Improvement Grant	20.500		<u>293,534</u>
Total Federal Expenditures			\$ <u>9,560,395</u>

See notes to the Schedule of Federal Financial Awards.

MUNICIPALITY OF VEGA BAJA, PUERTO RICO

NOTES TO SCHEDULE OF FEDERAL FINANCIAL AWARDS

For the year ended June 30, 2001

1. GENERAL

The accompanying Schedule of Federal Financial Awards presents the expenditures of all Federal financial awards programs of the Municipality of Vega Baja, Puerto Rico. The Municipality of Vega Baja reporting entity is defined in Note 1-A to the general purpose financial statements. Federal financial awards received directly from Federal agencies as well as Federal financial awards passed through other government agencies are included in the schedule.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Federal Financial Awards is presented using the modified accrual basis of accounting, which is described in Note 1-C to the general purpose financial statements.

3. RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS

Expenditure amounts included in the accompanying schedule agree with the amounts included in the general purpose financial statements as follows:

<u>Fund</u>	<u>Federal Assistance</u>	<u>Municipal Assistance</u>	<u>Total per Financial Statements</u>
Special Revenues	\$ 9,560,395	5,619,413	15,179,808
Capital Project	<u>-</u>	<u>2,226,491</u>	<u>2,226,491</u>
	\$ <u>9,560,395</u>	<u>7,845,904</u>	<u>17,406,299</u>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Part I - Financial Statements

1. Type of auditor's report issued, qualified.

2. Internal control over financial reporting:

- | | | | |
|----|---|--------|-------|
| * | Material weakness(es) identified? | ___yes | _X_no |
| * | Reportable condition(s) identified that are not considered to be material weaknesses? | ___yes | _X_no |
| 3. | Noncompliance material to financial statements noted? | ___yes | _X_no |

Part II - Federal Awards

1. Internal control over major programs:

- | | | | |
|---|---|--------|-------|
| * | Material weakness(es) identified? | ___yes | _X_no |
| * | Reportable condition(s) identified that are not considered to be material weaknesses? | _X_yes | ___no |

2. Type of auditor's report issued on compliance for major programs was unqualified.

3. Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of Circular A-133? _X_yes ___no

Identification of major programs:

<u>CFDA Number (s)</u>	<u>Name of Federal Program or Cluster</u>
93.575	Child Care and Development Block Grant
14.871	Section 8 – Rental Voucher
93.600	Head Start

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _X_yes ___no

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Program</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
NOTE:	There were no financial statement finding for the year ended June 30, 2001.	

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>		<u>Findings/Non-Compliance</u>	<u>Questioned</u>
Section 8		<u>Cash Management</u>	<u>Costs</u>
<p>Certificates, Moderate Rehabilitation and Voucher</p>	<p>01-III-1</p>	<p><u>Criteria and Condition</u></p> <p>Section 21 of OMB Circular A-102 common Rule 24CFR requires that funds should include procedures to minimize the time elapsed between the transfer of funds from the U. S. Treasury and the disbursement of funds by the grantee. During our examination of the voucher, Moderate Rehabilitation and Certificate bank accounts, we noted substantial excess of cash balances in the programs amounting to approximately \$ 690,000 at June 30, 2001.</p> <p><u>Cause</u></p> <p>The program had an excess of cash, due to once the budgeted amount is approved by HUD the funds are transferred monthly to the bank account but, the vouchers certificates available were not all assigned to the participants.</p> <p><u>Effect</u></p> <p>Cash was received in excess of current needs of the program.</p> <p><u>Recommendation</u></p> <p>We recommend that cash should be requested based on current needs and if actual expenditures will be less than the budgeted amount the cash requisition should be modified.</p>	<p>-</p>

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Findings/Non-Compliance</u>	<u>Questioned</u>
Section 8	<u>Cash Management (Continuation)</u>	<u>Costs</u>
	<u>Management Comments</u>	
	Excess cash is notified to the program in the year-end closing and the amount is deducted from the next year cash transfers.	

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Head Start 01-III-2	<p><u>Special Test and Provisions</u></p> <p><u>Criteria and Condition</u></p> <p>The OMB Circular A – 133 requires that Head Start Program must comply with applicable state and local requirements concerning licensing. In our examination of 15 of 39 state and local licenses, we found that the Municipality failed in comply with the “Administración de Reglamentos y Permisos” (ARPE) Licenses in 14 Head Start Centers for the period ending at 06/30/01.</p> <p><u>Cause</u></p> <p>The administrative personnel in charge of the program is not reviewing adequately the Head Start Program expiration licenses and not filing the licenses timely.</p> <p><u>Effect</u></p> <p>The Head Start Program have never had ARPE license in its Centers. Therefore, The Municipality is not complying with the program requirement related with current state license.</p>	-

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the year ended June 30, 2001

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>Program</u>	<u>Findings/Non-Compliance</u>	<u>Questioned Costs</u>
Head Start 01-III-2	<p><u>Special Test and Provisions</u> (Continuation)</p> <p><u>Recommendation</u></p> <p>Municipality officials should ensure That all Head Start Programs submit all required documents to obtain the current state and local licenses required by the program requirements.</p> <p><u>Management Comments</u></p> <p>The process of getting the ARPE license was started during the year. The Program administration expects to have the licenses for all of its centers in the near future.</p>	

MUNICIPALITY OF VEGA BAJA, PUERTO RICO
PRIOR YEARS FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2001

<u>Single Audit Report</u>	<u>Program</u>	<u>Finding No.</u>	<u>Finding</u>	<u>Current Status</u>
June 30, 2000, dated January 19, 2001	Section 8 certificates, Moderate Rehabilitation, Voucher	00-III-1	<u>Cash Management</u> Cash was received in excess of current needs of the programs.	Situation still prevails.
June 30, 1999, Dated March 7, 2000	Section 8, COPS, FEMA, CDBG and Loan Guarantee	99-II-1	<u>Accounting Records</u> The Municipality has not established a complete accounting system for these programs.	Situation still prevails.
	Head Start	99-III-1	<u>Special Tests and Provisions</u> The Municipality failed to comply with the "Administración de Reglamentos y Permisos" licenses for its Head Start Centers.	Situation still prevails.



Estado Libre Asociado de Puerto Rico
Gobierno Municipal de Vega Baja
Departamento de Finanzas

CORRECTIVE ACTION PLAN

Condition 1

Section 21 of OMB Circular A-102 and 24 CFR, requires that funds include procedures to minimize the time elapsed between the transfer of funds from the US Treasury and the disbursement of funds by the grantee. During our examination of the certificates, voucher, and rehabilitation bank accounts, we noted substantial excess of cash balances in the program amounting to approximately \$690,000.00

<u>Cash balance</u>	<u>6/30/00</u>	<u>6/30/01</u>	<u>Net increase</u>
Certificates	\$ 272,595	\$ 287,434	\$ 14,839
Vouchers	171,120	152,143	(18,977)
Moderate Rehab.	136,921	251,369	114,448

Corrective Action Plan

The Finance Department in connection with the Federal Programs Office contracted an individual contractor to analyze the excess of cash balances, in order to determine the substantial excess. Also the Finance Director analyzed the procedures that the program has to comply with this regulation, determined and applied new procedures to assure that the related programs are complying with the OMB Circulars and 24CFR. We expect to resolve this matter not later than June 30, 2002

Condition 2

The OMB Circular A-133 and 45 CFR sec. 1306(c) requires that Early Head Start and Head Start programs comply with applicable state and local requirements concerning licensing. In our examination of state and local licensing, we found that the Municipality failed to comply with the "Administración de Reglamentos y Permisos" (ARPE) in almost all of its centers for the period ended 06/30/01.

Corrective Action Plan

The Municipality had made over its years too many actions in order to comply with this provision. However, ARPE (State Administration of licenses and Permits) had no answered to almost all the applications sent by us. The Municipality in connection with the Head Start Program will continue make all efforts to achieve the licenses of all Head Start centers with the State Agency mentioned above, in order to comply with the State and local licensing.